Submission to the Treasury consultation on the *Better regulation and governance, enhanced transparency and improved competition in superannuation discussion paper*

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UnitingCare Australia **February 2014**

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Executive summary

UnitingCare Australia is the Uniting Church's national body supporting services and advocacy for children, young people, families, people with disabilities and older people.

This submission provides our feedback on the Commonwealth Government's *Better regulation and governance, enhanced transparency and improved competition in superannuation discussion paper*.

UnitingCare Australia believes:

- Australia's superannuation system should be appropriately regulated without unnecessary administrative burdens imposed on providers and individuals;
- Good governance should be an industry standard with penalties for failure; and
- Transparency and increased competition is to be encouraged whilst being mindful to ensure it does not create an avalanche of information which confuses consumers.

In examining the discussion paper we particularly welcome the government's commitment to identify measures which offset the cost impost to business of any new regulation. However, we believe the superannuation discussion needs to go further and consider some of the system's current policy settings to ensure Australia's superannuation system provides adequate retirement income, targets concessions on the basis of need and adequacy of income and is fair and equitable when considered against income sources for non-retirees.

Accordingly we ask the government to consider:

- Setting aside a proportion of the super guarantee contributions to fund future aged care needs, that is create an aged care "sinking fund" within an individual's superannuation scheme and resource further investigation and modelling of this proposal;
- Adopting a 'report once, use often' principle for regulation of the superannuation sector;
- Ensuring that enhanced transparency does not lead to information overload for consumers;
- Tightening-up conditionality of use of superannuation funds to preserve it as income in retirement;
- Re-applying the Low Rate Cap rules for retirees aged 60 and over;
- Reviewing the aged pensions and benefits access thresholds for self-funded retirees;
- Investigating options and new products for additional contributions; and,
- Introducing a concessional tax regime for superannuation income in retirement.

Introduction

UnitingCare Australia represents the network of UnitingCare community service providers operating nationally across more than 1300 sites in urban, regional, rural and remote Australia.

Our network is one of the largest providers of community services in Australia and we make a strong contribution to the economy by providing services to more than 2 million people each year, with an annual turnover in excess of $2 billion, employing 35,000 staff supported by 24,000 volunteers nationally. We partner with government s, other organisations, communities and people of goodwill to deliver people-centred services that help individuals and communities access the resources and opportunities needed to live a decent life.

UnitingCare Australia welcomes the opportunity to comment on the Commonwealth Government's *Better regulation and governance, enhanced transparency and improved competition in superannuation discussion paper.* Action in these areas will be important in promoting a more effective and sustainable superannuation system. However, the superannuation system does not sit in isolation from the myriad other income mechanisms and supports for older Australians. For most working Australians superannuation is and will continue to be a critical asset to fund their retirement costs. And if the current trend of declining home ownership continues superannuation will likely surpass the home as the primary asset owned by retirees.

Accordingly, it is timely to consider how the superannuation system can better help individuals to meet the likely costs of their retirement. This submission presents a simple proof of concept model for the introduction of an aged-care "sinking fund" operating within an individual's superannuation scheme to meet the costs of their future aged care needs. We believe there is significant merit in asking the government to further investigate and model this proposal as a means to help individuals meet the likely costs of their aged care.

Building mechanisms into the superannuation system that allow future generations to make whole-of-working-life contributions to meet the costs of their aged care needs would enable the pressure on government spending on aged care to be reduced. This will facilitate more targeted support for those who are unable to accumulate adequate retirement income.

Background – Australia's ageing population

In 2012 the Australian Bureau of Statistics reported that 14% of the total population in Australia was aged 65 or over. The ABS expects this to increase to 20% by 2040. Similarly, the number of people aged 85 years and older is projected to increase from 2% of the population in 2012 to 4% by 2040.[1] In contrast, Australia's working age population, taken as 15-64 years of age, is expected to decline from 67% in June 2012 to between 59-61% by 2061.[2] The Productivity Commission identified that in 2011 each Australian aged 65 years and older was supported by five people of working age and that by 2050 this ratio is expected to fall to 2.7.[3]

An ageing population presents opportunities and challenges for government, community and family alike. Whilst programs and supports are in place to support healthy and active ageing, these are not enough to meet the current demand. There is a growing need for more complex support, rehabilitation and care for older people in their own home or in a residential setting, in particular with the increasing incidence of dementia.

The Australian Institute of Health and Welfare (AIWH) reported a 13% increase in the overall number of operational community aged care packages between June 2010 and June 2011 and that women make up the greater proportion of clients than men[4]. AIWH also reported that most people living in residential aged care facilities are women (70%), the majority are over 80 years old (77%) and the average length of stay for permanent residents is increasing – in 2010-11 it was 145.7 weeks, an increase of 11% since 1998-99.[5] The ongoing experience of the UnitingCare network of aged care providers shows us that the upward trend in the demand and need for aged care packages at a higher level is continuing and that it continues to exceed supply.

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[1] Population Projections – Australia 2012 Media Release, *Australian Bureau of Statistics*, 26 November 2013, http://www.abs.gov.au/ausstats%5Cabs@.nsf/mediareleasesbyCatalogue/7DB4DD841EA3A2A5CA2574B9001E26F6?Opendocument, accessed 7 February 2014

[2] Population Projections – Australia 2012 Projection Results, Australian Bureau of Statistics, 26 November 2013, http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/3222.0main+features52012%20(base)%20to%202101, accessed 7 February 2014

[3] Caring for Older Australians, *Productivity Commission*, 28 June 2011, p.XXX

[4] Aged care packages in the community 2010-11: A statistical overview, *Australian Institute of Health and Welfare*, September 2012, p.vii

[5] Residential aged care in Australia 2010-11: A statistical overview, *Australian Institute of Health and Welfare*, September 2012, p.vii

Feedback on the discussion paper

A better approach to regulation

It is our experience that regulatory change, including action to reduce regulatory burden, is more often than not introduced at a cost to the sector that is being regulated. Whether it be an increase or decrease in reporting and administration, organisations subject to the regulation must adapt and/or change the way in which they collate, report, submit or audit information to meet new requirements. Where regulatory change has been signalled but not developed or implemented the cost of uncertainty can be high, with organisations not able to plan ahead because it is unclear what their future operating environment will look like.

We welcome the government's commitment to identifying measures that offset the cost impost to business of any new regulation. We encourage the government to carefully consider the timeframes which organisations say they need to lessen the impact of the introduction of new legislation, such as adequate transition periods. We also encourage the government , where possible, to adopt a 'report once, use often' principal for reporting obligations placed on the sector, bearing mind that consumers will have different needs to that of the government and regulator.

Transparency

We agree that transparency is critical to the efficiency and operation of a market-based savings system. However, we do not agree that increased transparency in itself will improve understanding, awareness and engagement at all levels. It is our experience that although increased transparency makes access to information easier it does not directly translate into greater understanding.

If individuals are to be better able to compare different superannuation funds they must first understand the information made available to them to enable comparison. We believe that it is also reasonable to expect that individuals will need to know what their retirement costs will likely be, including aged care, if they are to fully assess whether a product is right for them.

UnitingCare Australia believes that improved transparency across the superannuation system should include addressing whether or not the current superannuation framework is fit for purpose – will it enable most individuals to have adequate retirement income?

Additional Superannuation Product

We believe that the current system needs to be further developed to ensure that most individuals will have adequate retirement income and this includes specific provision for aged care and to achieve greater equality for those who are absent from the workforce and for low-income and disadvantaged individuals.

Under the current system there are a range of products, such as invalidity insurance, which provide additional protection for an individual and their family that we believe should continue to be part of the superannuation framework. And, based on the experience of the UnitingCare network of aged care providers, there is scope to include an additional product specifically to provide adequate resources to meet the likely aged care needs of a retiree.

We believe that there is significant merit in the government creating more options for individuals to contribute to superannuation during periods of absence from the workforce in order to better support their financial position in retirement.

Proposed aged care product

UnitingCare Australia believes that superannuation can, in addition to providing retirement income, provide sufficient funding for an individual's aged care needs. This portion of superannuation needs to be safeguarded for the specific purpose of aged care.

The 2011 Productivity Commission Inquiry Report – Caring for Older Australians noted that with many more Australian's living longer there will be a sizeable increase in the quantum of people requiring complex aged care and support over the next 40 years. The report raised the question of who should pay for aged care.[6]

In considering who should pay we note that the current practice, where possible, for many retirees is to use their home as an asset to fund retirement and aged care. However, home ownership in Australia is in decline. The Australian Housing and Urban Research Institute reports that the number of households who own their home outright has fallen since 1996 from 40.9% to 32.1%.[7] UnitingCare knows that for many low income and disadvantaged people home ownership is not an option at any life stage.

Therefore, UnitingCare Australia encourages the expansion of the superannuation system to include the capacity for it to meet the costs of an individual's future aged care needs.

We believe there is merit in the government harnessing the capital growth mechanisms of superannuation to enable individuals to fund their aged care needs by quarantining a percentage contribution of approximately 1.5%. The accumulation capacity of the superannuation system would build the necessary capital to meet an individual's aged care needs over the full term of their working life. If not fully used this asset would be returned to an individual or their estate.

In seeking to model this proposal we have spoken with superannuation industry representatives and looked to the collective experience of the UnitingCare network of aged care providers.

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[6] Productivity Commission Inquiry Report Volume 2 Caring for Older Australians, *Productivity Commission*, June 2011, p.6

[7] Home Ownership, *Australian Housing and Research Institute*, http://www.ahuri.edu.au/themes/home_ownership, accessed 22 January 2014

Although there is no one specific pathway for UnitingCare aged care clients, we know that individuals prefer to stay in their own home and/or family setting for as long as possible and usually enter residential care around 83 years old. Our experience closely aligns with the 2012 findings of the ARC Centre of Excellence in Population and Ageing Research.[8]

In our experience a common pathway of aged care provided to an individual is typically 4 years of low level care in the community, 1.5 years of high level care in the community and a year of high level care in a residential setting. Taking into account the maximum individual aged care contributions from 1 July 2014, we estimate that the likely cost of aged care fees for an individual who takes this 6.5 years aged care pathway will be in the order of $114,000* (or $439 000 in 45 years' time) with further additional costs specific to the needs and lifestyle of an individual, such as extra-service packages which could add further significant costs.

If an individual earning the average national wage, taken as $67,000 per year (with an assumed growth at 3%p.a), contributed 1.5% of their salary to a 'sinking fund' they would be able to amass around $440 000** on retirement to cover the costs of aged care, if this contribution was consistent over the period of their working life.

If this aged care portion of superannuation was further protected during retirement until it was required for aged care it could attract additional investment earnings. Therefore, it is possible that the accumulated capital balance will be higher than that an individual would need for basic aged care which allows the individual to have greater choice in the level or type of care they receive. Any unused funds would be returned to the estate on the death of the individual.

The actual contribution rate will need further refining with actuaries as well as the aged care industry but regardless we believe that making provision for aged care through the superannuation system is critical in delivering a sustainable aged care system.

* Figure based on the maximum means-tested daily aged care fee of 17.5% of the aged pension (taken to be $21,504) for homecare and 85% of the basic aged pension for residential care, the maximum income-tested aged care fee (taken to be the $60,000 lifetime cap) and a daily residential accommodation charge of $55.
** This figure is a simple proof of concept based on a straight line model assumes wage inflation, a 7% per annum compounding investment return (3.5% on average for each discrete year of contribution with contributions paid fortnightly or monthly and the return averaged in the year of receipt), is based on a 45 year working life with no absences from the workforce and retirement at age 65.

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[8] Aged Care Fact Sheet November 2012, *ARC Centre of Excellence in Population Ageing Research, University of New South Wales*, November 2012, http://www.cepar.edu.au/media/101879/cepar_aged_care_fact_sheet_low.pdf, accessed 7 February 2012.

Changes to superannuation policy settings

Conditionality of use

Given that the government subsidises superannuation income it is right for it to impose conditions on its use. We believe that superannuation should only be used as a pension and should not be accessible as a lump sum. This would be consistent with the original intention of superannuation which is to provide an income stream in retirement and would limit the capacity for individuals to manipulate the value of their superannuation capital so as to access the aged pension which they would otherwise not be entitled to receive. There are any number of tax and other mechanisms that could be used to discourage individuals using their subsidised superannuation for non-retirement income purposes. One solution to this issue is to re-apply apply the Low Rate Cap rules that currently apply to people aged between 55 and 59 inclusive (currently $180,000 for the 2013/14 financial year from the taxable component) to retirees 60 years of age or over. That is, the amount that can be withdrawn is restricted unless an individual is willing to pay an excess tax penalty (15% plus the Medicare levy).

Interaction with the government pension

The superannuation system intersects with a number of government policy and funding settings in particular the aged pension and benefits card. We believe that the government should also carefully consider the current thresholds at which self-funded retirees access the aged pension and benefits to ensure that only those with inadequate superannuation income or non-principal place of residence assets access the aged pension and its associated benefits.

Creating more options for contribution

Absence from the workforce impacts on the final balance of an individual's superannuation. We know that women are more likely to have periods of absence from the workforce to care for children and/or other family members and that in doing so they contribute to the social and economic wellbeing of the country. As highlighted earlier in this submission, women are the majority recipients of aged care and tend to live longer than men. The Australian Bureau of Statistics reports that life expectancy at birth in the decade to 2011 has, on average been higher for females than males. A boy born between 2009 and 2011 can expect to live, on average, 79.7 years, while a girl born in the same period can expect to live 84.2 years.[9] Women are more likely to need income from superannuation and aged care for longer periods than men.

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[9] Life Expectancy, *Australian Bureau of Statistics*, http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4125.0main+features3110Jan%202013, accessed 21 January 2014

We believe that there is a pressing need for the government to investigate other pathways to enable individuals to continue or begin contributing to their superannuation when absent from the workforce and to increase the number of ways in which additional contributions can be made to “top-up” an individual’s superannuation.

We also believe that there is a pressing need to investigate how low-income and disadvantaged individuals might contribute to superannuation so that they too can take advantage of the concessions which government applies to superannuation.

Taxation treatment of superannuation

UnitingCare Australia understands that taxation of superannuation will be examined as part of the government’s forthcoming white paper on tax. However, we believe it is appropriate to signal in this submission our position that we wish to see greater equality in the taxation treatment of income earned during an individual’s working life and that in retirement through superannuation. The current superannuation system provides most of the billions of dollars in tax concessions to the highest wealth individuals. We believe that this inequity needs to be addressed to help fund the future income needs of Australians. We do not see any reason for superannuation income to remain tax free for people over 60 years of age. We believe that a concessional tax regime introduced to appropriately recognise tax already paid by superannuates would help to create greater equality in the treatment of all tax payers.

Conclusion

We welcome the government's commitment to better regulation, governance, increased transparency and greater competition in the superannuation system.

UnitingCare Australia believes that improvements in these areas, whilst desirable and helpful, will not address the critical issue that Australia's superannuation system needs to be modernised to better reflect the changing economic and social profile of Australians, such as the decline in home ownership and new patterns of income earning, to deliver equality for all in the superannuation system and to help meet the costs of an increasing ageing population. We believe that this can be done by adopting the measures outlined in this submission which will assist individuals to better prepare for increasing longevity by providing more ways in which to save for aged care and to provide pathways for those who are absent from the workforce to contribute to a strong and equitable superannuation system that will deliver better economic outcomes for individuals and the economy as a whole.

Recommendations

- Set aside a proportion of the super guarantee contributions to fund future aged care needs, that is create an aged care "sinking fund" within an individual's superannuation scheme and resource further investigation and modelling of this proposal;
- Adopt a 'report once, use often' principle for regulation of the superannuation sector;
- Ensure that enhanced transparency does not lead to information overload for consumers;
- Tighten-up conditionality of use of superannuation funds to preserve it as income in retirement;
- Re-apply the Low Rate Cap rules to retirees aged 60 and over;
- Review the aged pensions and benefits access thresholds for self-funded retirees;
- Investigate options and new products for additional contributions; and
- Introduce a concessional tax regime for income in retirement.